

Message Text

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PAGE 01 MANILA 10561 110613Z

ACTION EA-09

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 2142

C O N F I D E N T I A L MANILA 10561

E.O. 11652: GDS

TAGS: ETRD, RP

SUBJECT: US-PHILIPPINE BILATERAL ECONOMIC NEGOTIATIONS

1. SUMMARY: FINANCE SECRETARY VIRATA HAS TOLD ME THAT GOP IS INTERESTED IN RESUMING US/GOP ECONOMIC NEGOTIATIONS, BUT WISHES TO ASCERTAIN THAT US POSITION IS FLEXIBLE ENOUGH TO WARRANT NEGOTIATION. VIRATA SUGGESTED INFORMAL EXPLORATION OF POSSIBILITIES BEFORE COMMITTING OURSELVES TO FORMAL NEGOTIATIONS. EMBASSY'S RECENT REVIEW OF NEGOTIATING POSITIONS INDICATES THAT U.S. AND GOP REMAIN QUITE FAR APART AND THAT SUCCESSFUL OUTCOME OF NEW ROUND OF TALKS IS IMPROBABLE. THIS I AGREE WITH VIRATA THAT WE SHOULD PROCEED CAREFULLY. THE FIRST STEP IS A REVIEW IN WASHINGTON OF U.S. POSITION. MEANTIME, I BELIEVE I SHOULD HAVE ANOTHER INFORMAL SESSION WITH VIRATA TO GAIN CLEARER SENSE OF GOP POSITION AND WOULD WELCOME ANY GUIDANCE YOU WISH TO PROVIDE. END SUMMARY

2. I ASKED SECRETARY OF FINANCE CESAR VIRATE JULY 8 TO ADVISE MW WHERE WE STAND REGARDING PROSPECTIVE US-PHILIPPINE ECONOMIC NEGOTIATIONS. VIRATA RESPONDED THAT GOP IS INTERESTED BUT WISHES FIRST TO ASCERTAIN IF US POSITION SUFFICIENTLY FLEXIBLE TO WARRANT NEGOTIATIONS. HE SUGGESTED THAT WE TOGETHER INFORMALLY EXPLORE THE PROSPECTS FOR
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PAGE 02 MANILA 10561 110613Z

AGREEMENT BEFORE COMMITTING OURSELVES TO FORMAL NEGOTIATIONS.

3. VIRATA MAINTAINED THAT GOP SUBSTANTIVE POSITION IS REASONABLE, BUT STATED FRANKLY THAT THE GOP IS UNWILLING, INDEED UNABLE (LEGALLY, POLITICALLY AND PSYCHOLOGICALLY) TO GRANT THE U.S. NON-DISCRIMINATORY TREATMENT OF INVESTMENTS, WHICH THE GOP CAN ONLY INTERPRET TO MEAN NATIONAL TREATMENT

BY ANOTHER NAME. THE GOP MUST BE IN A POSITION WITH RESPECT TO U.S. AS WELL AS OTHER FOREIGN INVESTMENT (WHICH WOULD INSIST ON SIMILAR CONCESSIONS) TO ADJUST INVESTMENT RELATED CONDITIONS AS MAY BE REQUIRED OVER TIME. HOWEVER, THE GOP RECORD ON TREATMENT OF INVESTMENTS GIVES NO CAUSE FOR CONCERN, AND ALSO, THE GOP IS PREPARED TO CONSIDER EXCEPTIONS ON THEIR MERITS OUTSIDE THE MFN CONTEXT, E.G., CURRENT PROCEDURES PROVIDE FOR PIONEER AND OTHER TYPE OF EXCEPTIONAL INVESTMENT CONDITIONS.

4. ON THE BASIS OF EMBASSY'S RECENT REVIEW (SEE PARAS 5 AND 6 BELOW) OF THE CENTRAL ISSUES OF THE NEGOTIATION (THE GSP WAIVER, PARTICULARLY FOR SUGAR, RECIPROCAL TRADE CONCESSIONS AND INVESTMENT GUARANTEES), IT DOES APPEAR THAT U.S. AND GOP POSITIONS REMAIN QUITE FAR APART. I THUS AGREE WITH SECRETARY VIRATA THAT WE SHOULD PROCEED WITH CARE. SHOULD TALKS FAIL, GOP NEGOTIATORS WILL ATTEMPT TO PERSUADE MARCOS, ET AL, THAT U.S. INTRANSIGENCE AND LACK OF SYMPATHY ARE AGAIN TO BLAME.

5. GOP HAS BEEN RECONSIDERING ITS POSITION ON THESE TALKS FOR SOME MONTHS NOW. OUR CURRENT THOUGHTS ON THIS PROBLEM ARE CONTAINED IN OUR INFORMAL PAPER CONVEYED UNDER COVER OF MELLOR-HEGINBOTHAM LETTER OF MAY 19. THESE REPRESENT THE OPENING ROUND IN OUR RECONSIDERATION OF THE U.S. POSITION, A PROCESS WHICH EMBASSY RECOMMENDS BEGIN ASAP IN WASHINGTON, CONFIDENTIAL

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PAGE 03 MANILA 10561 110613Z

WITH A GOAL OF REACHING TENTATIVE CONCLUSIONS BY LATE JULY.

6. THE BURDEN OF OUR PAPER SENT HEGINBOTHAM MAY 19 IS THAT THERE IS NO OVERRIDING POLITICAL OR ECONOMIC NECESSITY FOR A NEW BILATERAL ECONOMIC TREATY WITH THE PHILIPPINES. THE EXPIRATION OF LAUREL-LANGLEY HAS NOT CAUSED THE ECONOMIC AND COMMERCIAL DISRUPTION PREVIOUSLY EXPECTED BY MANY; AND POLITICAL RELATIONS HAVE NOT BEEN MEASURABLY AFFECTED. MOREOVER, THERE IS NO CLEAR OR EASY ROAD TO A NEW AGREEMENT, AS THE NEGOTIATING POSITIONS OF THE TWO SIDES DO NOT MATCH WELL AND DO NOT FACILITATE TRADE-OFFS. HENCE, OUR CONCLUSION THAT IF NEGOTIATIONS RESUME SOON, A SUCCESSFUL OUTCOME IS IMPOSSIBLE. WE OF COURSE WISH TO PREVENT THE ADVERSE REACTION THAT WOULD FOLLOW ANY RELUCTANCE TO TALK, AS WELL AS AN UNSUCCESSFUL OUTCOME OF ANY NEGOTIATIONS THAT MIGHT TRANSPIRE.

7. MEANWHILE, BELIEVE I SHOULD PLAN TO HAVE ANOTHER INFORMAL SESSION WITH VIRATA, NOT TO CONDUCT STRUCTURED "PRENEGOTIATION" BUT TO GAIN A CLEARER SENSE OF THE CURRENT GOP POSITION AND TO FORESTALL ANY POSSIBLE FORMAL GOP REQUEST TO RESUME NEGOTIATIONS. IN THIS REGARD, I WOULD

WELCOME ANY GUIDANCE YOU MIGHT WISH TO OFFER.

8. IF THE DECISION IS MADE NOT TO HOLD COMPREHENSIVE
ECONOMIC NEGOTIATIONS, TWO TRADE PROBLEMS OF SPECIAL CONCERN
TO THE GOP WILL REMAIN TO BEDEVIL US: THE U.S. TARIFFS
ON COCONUT OIL AND PLYWOOD. THESE PROBLEMS MIGHT BE DEALT
WITH IN THE MTN; BUT IF THIS WERE NOT POSSIBLE, WE SHOULD
MAKE A CONCERTED EFFORT TO RESOLVE THEM BILATERALLY. THEY
HAVE THE POTENTIAL FOR LONG-LASTING IRRITATION BETWEEN THE
U.S. AND R.P.
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